

CHAPTER 1 - INTRODUCTION

SECTION A - USE OF THE SYSTEM

The Uniform System of Accounts contained in this manual is for use in cities and towns and is prepared for use on either a single-entry cash basis or a double-entry modified accrual basis of accounting.

A double-entry modified accrual accounting basis has been prescribed and is available for use in all cities and towns.

Certain cities and towns may own electric, gas, water or wastewater utilities, the operations of which are presently accounted for on a double-entry accrual system of accounts following the manuals published by the National Association of Regulatory Utility Commissioners and adopted by the Indiana Utility Regulatory Commission (formerly the Public Service Commission).

Electric and gas utilities are divided into four classes, A, B, C, and D, depending on the amount of annual operating revenues. Water and wastewater utilities are divided into three classes, A, B, and C, also depending on the amount of annual operating revenues. The Uniform System of Accounts pertaining to any particular class may be obtained by writing to the National Association of Regulatory Utility Commissioners, P.O. Box 684, Washington, D.C., 20044.

Classes A and B must use the double-entry accrual accounting system prescribed. Municipal utilities which would be classified as C should use double entry accrual records if the personnel employed are capable of posting double-entry accrual records. If such personnel are not available, it would be permissible to continue using the simplified single entry cash basis forms.

The use of the double-entry accrual accounting system for utilities is recommended. Advantages of double-entry accrual accounting are the inclusion of assets and liabilities in the books of account, the preparation of financial statements without the necessity of analysis of supporting memoranda and documents, and a means of providing a better understanding of the financial status of the utility.

An accounting system for a municipality, whether it be on a single or double-entry basis, must serve many and varied purposes. Primarily, it must furnish the responsible officials with an effective aid in the financial management of their municipality. In addition, it must serve the taxpayer by providing an adequate record of city and town operations and informative statements of results at frequent intervals. Investment analysts must have sufficient data to study the financial position of the city, town or utility. State and federal agencies should have necessary information for statistical and economic comparisons.

All these purposes have been considered in designing this manual, but the first consideration is the needs of the city and town officials. The manual will be amended when necessary to continue to provide city and town officials with accounts for use in (1) budgeting (2) accounting and (3) reporting, for maximum information and uniformity in all three areas.

In preparing this manual, an effort was made to guide Indiana municipalities into keeping their accounting records in conformance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards applicable to governmental units. Extensive use of three authoritative publications has been made:

Governmental Accounting, Auditing and Financial Reporting (commonly referred to as GAAFR or the Blue Book), published in 1994 by the Government Finance Officers Association (GFOA), Chicago, Illinois.

Audits of State and Local Governmental Units, an industry audit guide, revised in 1998, prepared by the State and Local Government Committee, American Institute of Certified Public Accountants (AICPA), New York, New York.

Governmental Accounting and Financial Reporting Standards [Statements of the Government Accounting Standards Board (GASB)] as of June 30, 2000, published by GASB, Norwalk, Connecticut.

We recommend financial officers should obtain copies of these three publications for use in their municipality.

It is recognized that federal program regulations, state laws, state agency regulatory requirements, and other legal requirements quite often conflict with Generally Accepted Accounting Principles (GAAP). In those instances where legal provisions conflict with GAAP and certified audit reports are issued by the State Board of Accounts, basic financial statements will be prepared in accordance with GAAP along with supportive schedules and notes to financial statements indicating the legal compliance, responsibilities and accountabilities of the municipality.

SECTION B - LEGAL REFERENCES

Throughout the Manual legal references are furnished, where applicable, to facilitate locating statutes, opinions of the Attorney General and court decisions touching on the subject discussed. These references are only for the purpose of assisting in resolving questions which might arise and should not be construed as legal opinions of the State Board of Accounts. If a legal question arises that is not answered by one of the references furnished, or if a statute, opinion or court decision requires further interpretation, consult the city or town attorney.

All references to statutes are to the Indiana Code and to the title, article, chapter and section of the Code. For example, IC 6-1.1-32-2 refers to Title 6, Article 1.1, Chapter 32 and Section 2 of the Code.

In using the Indiana Code it is important to remember that the entire Code is not reprinted each year and the latest supplemental volume(s) should always be reviewed for any laws which may have been enacted since the entire Code was last reprinted.

The Code Edition of Burns Indiana Statutes and West's Annotated Indiana Code are other available sources of applicable statutes. To make certain that you are reading the most recent law on the subject in those volumes, reference should always be made to the latest pocket supplement. The use of Burns Indiana Statutes or West's Annotated Indiana Code may be beneficial because of the annotations, or footnotes, carried under each section, which make reference to official opinions of the Attorney General, court decisions and other information or material relating to the statute.

References to Official Opinions of the Attorney General are usually shown as "OAG," followed by the number of the opinion and the year it was issued, or if no number was assigned to the opinion the exact date of issue.

References to court decisions, unless otherwise stated, are to cases decided by the Indiana Supreme Court and the Indiana Court of Appeals (formerly designated Indiana Appellate Court). A reference, such as "223 Ind. 467" means Page 467, Volume 223 of Indiana Reports (Supreme Court). The reference "91 App. 160" means Page 160, Volume 91 of Indiana Court of Appeals Reports.

SECTION C - DEFINITIONS

The following terms are used throughout the system. Each is defined herein to prevent misunderstanding or misinterpretation.

Board, except as the context clearly states otherwise, shall mean and include the board of public works and safety, the city common council or a town council.

Fund means "cash" or a group of accounts set aside for the purpose of accounting for moneys or other resources of general functions or specific activities such as utilities, construction projects or other activities of a city or town in accordance with a system of accounts prescribed by the State Board of Accounts or as required by statute.

The primary funds in cities and towns are the General Fund, Motor Vehicle Highway Fund, Local Road and Street Fund, Park and Recreation Fund, Cemetery Fund, Aviation Fund, Parking Meter Fund, Bond and Interest Redemption Fund, Cumulative Capital Improvement Fund, Electric Utility Funds, Water Utility Funds, Gas Utility Funds, Wastewater Utility Funds, Special Assessment Funds (Barrett Law) and Trust and Agency (Withholding) Funds.

GAAFR defines a fund as: "A fiscal and accounting entity with a self balancing set of accounts in which cash and other financial resources, all related liabilities and residual equities, or balances, and changes therein, are recorded and segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions or limitations." A further discussion of the types of funds GAAFR requires will be found in Chapter 2, Section B, Page 7-1.

Character of expenditure means the classification of an expenditure as to (1) Current Operating Expenditures; (2) Debt Service; (3) Capital Outlays; or, (4) Intergovernmental.

This distinction as to character is accomplished by either separate funds for certain types of disbursements or by separate classifications of such expenditures within funds.

Organizational unit shall mean an office, department, board, commission or other agency or specific activity of city or town government. Hence, for purposes of budgeting, accounting and reporting, Common Council of a city, Town Council, Park and Recreation Board, Cemetery Board, Aviation Commission, etc., would constitute separate organization units.

Object classes of expenditure shall mean the classification of an expenditure as to types of items purchased or services rendered.

Major Budget Classification means one of the four major classifications of expenses for which appropriations are made under the uniform budget system prescribed for cities and towns. The major classifications are: Personal Services; Supplies; Other Services and Charges; and, Capital Outlay.

Minor Budget Classification means one of the detail or minor classifications of expense under a major budget classification, as prescribed in the uniform system for cities and towns.

Personal Services, Supplies, Other Services and Charges, and Capital Outlay are objects of expense in most general use in this system. Objects of expense are always used in conjunction with organization units.

Appropriation means authorization by the city council or town council by ordinance to make disbursements or to incur obligations for specific purposes. An appropriation may be accomplished by budget enactment or by subsequent modification of the budget by emergency appropriation. The source of moneys to finance the disbursement should always be stated in the appropriation ordinance.

Encumbrance means an obligation incurred in the form of a purchase order or contract which is to be met from an appropriation and for which a part of the appropriation is reserved. It ceases to be an encumbrance when paid.

Unencumbered Appropriation Balance means that portion of an appropriation not yet encumbered or expended.

SECTION D - ACCOUNTING PRINCIPLES

The major principles of accounting which underlie the Uniform System contained in this manual are:

1. Records shall be kept in full compliance with all legal requirements.
2. Accounting shall be based on a separation of funds.
3. Distinction with respect to character of expenditure shall be maintained.
4. The uniform classification of accounts shall be used in budgeting, accounting and reporting.
5. The records shall be kept on either a single-entry cash basis or double-entry modified accrual basis.
6. Budgetary control of receipts and disbursements shall be established.
7. Unexpended balances of appropriations, for other than encumbrances by contract, shall lapse at the close of each year.

LEGAL REQUIREMENTS

The principle that the accounting must follow the law needs no explanation.

The explanations contained in this manual are illustrations of applications of particular statutory requirements.

All transactions may not have been anticipated herein and may necessitate local study for conformance to legal requirements. If any legal question arises, consult your city or town attorney.

SEPARATION OF FUNDS

The system provides for separation of accounts by funds in order to comply with statutory requirements and generally accepted accounting principles.

Utility fund accounts showing only receipts, disbursements and balances will be carried on the records of the Clerk-Treasurer.

Separate records prescribed or approved by the State Board of Accounts will be maintained for electric, water, and gas utilities following the Uniform System adopted by the Indiana Utility Regulatory Commission. The sewage utility records will follow the Uniform System of Accounts for Wastewater Utilities published by the National Association of Regulatory Utility Commissioners.

CLASSIFICATION BY CHARACTER

The character of expenditures or disbursements has previously been defined to include (1) Current Operating Expenditures; (2) Debt Service; (3) Capital Outlays; and, (4) Intergovernmental Expenditures. These distinctions are maintained throughout the system of accounts and their importance cannot be over-emphasized.

Current operating expenditures are outlays which primarily benefit the current fiscal period. They consist of the costs of operating and maintaining the city or town.

Debt Service represents outlays in the term of debt principal payments, periodic interest payments, and related service charges for benefits received in part in prior fiscal periods as well as in current and future fiscal periods.

Capital Outlays are outlays which benefit both the current and future fiscal periods. This includes costs of acquiring land or structures; construction or improvement of buildings, structures or other fixed assets; and equipment purchases. These are expenditures resulting in the acquisition of or addition to the government's general fixed assets.

Intergovernmental expenditures are transfers of resources from one government to another.

UNIFORM CLASSIFICATION OF ACCOUNTS

The account numbers used in this manual follow the budget classifications contained in Chapter 5. See Definitions, Page 48-1.

The major objective is to provide a chart of accounts inclusive of every disbursement.

Accounts, as prescribed, are to be used in (1) budgeting, (2) accounting and (3) reporting so as to provide maximum information and uniformity in these three stages.

SINGLE-ENTRY AND CASH BASIS

For most municipalities the general records shall account for cash receipts and disbursements only. In this instance, accruals of revenues or expenses are not provided, except in the case of utilities and those cities operating on a double-entry modified accrual basis of accounting. The net result of all transactions of a fund shall be reflected in the cash balance of that fund.

The cash balance of a particular fund shall be determinable from comparison of the entries in the Ledger of Receipts, Disbursements and Balances which shall be balanced and reconciled with bank balances monthly.

The subtraction of total disbursements of a fund from the sum of total receipts and the cash balance at the beginning of a particular period should produce the cash balance of that fund. This calculation shall be made monthly and the cash balance of each fund at the close of the month shall be entered and reconciled with bank account balances.

SINGLE ENTRY - CASH BASIS FUND STATEMENT

A summary of the monthly computation follows:

General Fund Cash Balance on March 1, 2000	\$ 1,500.00
Add: Total General Fund Receipts During March	<u>10,500.00</u>
Total	12,000.00
Subtract: Total General Fund Disbursements During March	<u>7,000.00</u>
General Fund Cash Balance on March 31, 2000	<u><u>\$ 5,000.00</u></u>

The record balance at the end of every month shall be reconciled with the bank balance. [IC 5-13-6-1] Thus, any errors may be discovered and adjusted monthly. This procedure will localize any errors within the month and will prevent the necessity of a long and tedious search to trace errors covering transactions over a long period of time and will serve to expedite audits by the State Board of Accounts.

The following is an illustration of a bank reconciliation:

DEPOSITORY STATEMENT AND CASH RECONCILEMENT
March 31, 2000

Depository Balance:			\$ 6,000.00
Citizens Banking Company			
Deduct Outstanding Warrants:			
	<u>Date</u>	<u>Warrant Number</u>	<u>Amount</u>
	3-04-xx	84	\$ 25.00
	3-22-xx	87	75.00
	3-22-xx	89	125.00
	3-22-xx	90	25.00
	3-22-xx	81	50.00
	3-22-xx	96	200.00
	3-22-xx	86	300.00
	3-22-xx	102	150.00
	3-22-xx	103	50.00
	3-20-xx	104	_____
			<u>100.00</u>
Total			1,100.00
Net Depository Balance			4,900.00
Add Cash on Hand (Deposited April 1)			<u>100.00</u>
Record Balance, March 31, 2000			<u><u>\$ 5,000.00</u></u>

Cancelled warrants returned with the monthly bank statement should be sorted numerically to facilitate the monthly bank reconciliation. After the reconciliation is completed, file the monthly bank statements with the cancelled warrants for future reference and audit. All cancelled warrants should remain with the bank statement which they accompany.

BANK ACCOUNTS

It has been our policy consistently to recommend only a minimum number of accounts in the bank in order to avoid unnecessary bookkeeping and possible errors in charging warrants to bank accounts. So long as an ordinance does not require the keeping of a separate bank account, funds should be consolidated into as few accounts as possible.

A single bank account should be provided for all city or town funds, separate bank accounts for the funds belonging to each utility, and possibly a separate bank account for Special Assessments Funds. Some bond ordinances and federal regulations require separate bank accounts for various funds and must be followed. Funds of other entities held by the city or town's fiscal officer must be accounted for in separate bank accounts.

Expenses and receipts shall be recorded only when cash is disbursed or received. The shortcomings of this method are minimized by supporting subsidiary records.

BUDGETARY CONTROL

The law requires the adoption of a balanced budget which shall include all anticipated revenues and expenses of every organization unit with the exception of utilities.

A budget is the record of a definite financial program for a given period of time and the means of carrying such program into effect. It shows the contemplated expenditures and their relation to the revenues received and expected.

At least two days prior to September 22 of each year, two copies of the budget on which tax levies are based shall be filed with the county auditor for use of the county tax adjustment board. [IC 6-1.1-17-5(b)]

In preparing the budget, careful planning for the necessary income is essential, and it is equally important to provide a specific program for the disposition or anticipated revenue.

No budget plan will work of its own accord. With complete information available it is possible for the Clerk-Treasurer or Controller to formulate a balanced budget.

Appropriations as stated in the budget, or as modified by emergency appropriations, shall constitute the limitation of disbursements. No disbursement shall be made without an appropriation therefor unless specifically authorized by law.

PUBLIC NOTICE ADVERTISING - BUDGETS

The law provides for a public hearing and for a ten day notice by publication advising the taxpayers of such public hearing. Statutes relating to the budget require two insertions be made at least one week apart, with the second publication made at least three days before such public hearing. [IC 6-1.1-17-3; IC 6-1.1-17-5] IC 5-3-1-4(a) requires publication in two newspapers published in the political subdivision. IC 5-3-1-4(c) requires: that if there is only one newspaper published in the municipality, then publication in that newspaper alone is sufficient. If no newspaper is published in the municipality then publication shall be made in a newspaper published in the county in which the municipality is located and that circulates within the municipality. The notice shall be posted (1) at or near the city or town hall; or (2) at the: (A) public building where the governing body of the respective city or town meets; or (B) post office in the municipality (or at the bank if there is no post office); if the municipality does not have a city or town hall. If there are questions relating to proper procedure for publishing the municipality's budget or additional appropriations, they should be directed to Director of Cities and Towns, State Board of Tax Commissioners, Indiana Government Center North, 100 N. Senate Avenue, Room N1058, Indianapolis, IN, 46204, telephone number 232-3773, area code 317.

BUDGET ORDINANCE

The budget ordinance required under IC 36-4-7-7 and IC 36-5-3-4, which is adopted by the city or town council, may either list each major budget category along with each minor object classification or only list each major budget category. Regardless of which method is chosen, the appropriation records maintained must contain minor object classifications.

ADDITIONAL APPROPRIATIONS

For additional appropriations of funds that receive revenue from property taxes or the State's motor vehicle highway account or local road and street account, a certified copy of the additional appropriation form must be filed with the State Board of Tax Commissioners. For other funds requiring appropriation, local fiscal body approval is still required.

The following form of notice should be given:

NOTICE TO TAXPAYERS OF PROPOSED ADDITIONAL APPROPRIATIONS

Notice is hereby given the taxpayers of _____, _____ County, Indiana that

(Name of Taxing Unit)

the proper legal officers of _____ at their regular meeting place at _____, at _____ o'clock _____ m., on _____ day of _____, __, will consider the following additional appropriation in excess of the budget for the current year.

(Name of Fund)

Fund Name:

Major Budget Class or Account Number
(use of each appropriation):

\$ _____

TOTAL for _____ Fund

\$ _____

(Repeat for any other funds)

Taxpayers appearing at such meeting shall have a right to be heard. The additional appropriations as finally made will be automatically referred to the State Board of Tax Commissioners. The Board will make a written determination as to the sufficiency of funds to support the appropriations made within fifteen (15) days of receipt of a Certified Copy of the action taken.

If there is any doubt as to how to proceed, write to the State Board of Tax Commissioners, Indiana Government Center North, Room N1058, Indianapolis, Indiana 46204. A bulletin entitled "Procedure for Obtaining Additional Appropriations" has been prepared by the State Board of Tax Commissioners for use by all municipal corporations.

LAPSING OF CURRENT APPROPRIATIONS

Unexpended and unobligated appropriations shall lapse at the close of the year.

Every effort should be made by the Clerk-Treasurer and other city or town officials to have bills and claims presented before the end of the year, so that such items shall be charged to the appropriation and disbursement account of the year in which the service or commodity was supplied.

A claim of a prior year may be paid in the following year if the prior year's appropriation is properly encumbered and there are sufficient funds available. In order for funds to be encumbered, there must be an outstanding purchase order or contract that supports each encumbered item.

The carry-over of a large amount of unencumbered and unpaid claims will necessitate getting an emergency appropriation for the specific purpose of paying prior years claims. It is emphasized statutes prohibit obligations being incurred prior to appropriations and funds being available!

TRANSFERS BETWEEN DEPARTMENTS

When proposing transfers from one department or office to another, in addition to an ordinance of the town council or common council authorizing such transfer, advertising to the taxpayers and prior approval of the State Board of Tax Commissioners is required.

TRANSFERS BETWEEN APPROPRIATIONS - WITHIN SAME DEPARTMENT

Pursuant to IC 6-1.1-18-6, all cities and towns using departmental budgets may, by ordinance or resolution, transfer appropriations from one major budget classification to another within a department or office at any regular public meeting without prior notice and without approval from the State Board of Tax Commissioners, provided such transfer does not necessitate expenditure of more money than the total amount set out in the budget. All such transfers shall be certified to the county auditor.

If the municipality's budget was advertised and passed by ordinance listing minor object classifications within any major classification, transfers may be made by resolution of the city council or town council between such minor object classifications within the major classification without advertising and without certification to and approval of the State Board of Tax Commissioners. Such resolutions are not required if the budget is advertised and passed by ordinance listing only major object classifications.

In those towns where the general fund budget is not departmentalized, attention is directed to the provisions of Attorney General's Official Opinion No. 11, dated June 28, 1976. The opinion was written in response to a question from a public school corporation regarding transferring money from one account of its general fund to another account within its general fund without additional prior notice to the public and without prior approval of the State Board of Tax Commissioners. The Attorney General in this official opinion stated that money could be transferred from one major budget classification of its general fund to another classification within that same fund without additional public notice and prior approval of the State Board of Tax Commissioners as long as the transfer was authorized by ordinance, adopted at a public meeting, and did not require expenditure of money in excess of the total appropriation available. The State Board of Accounts recommends the town attorney review IC 6-1.1-18-6 and Official Opinion No. 11, dated June 28, 1976. With the attorney's written approval, the State Board of Accounts will not take audit exception in future audits of a town if transfers of appropriations are made within the town general fund pursuant to the requirements of IC 6-1.1-18-6.

SPECIMEN - TRANSFER ORDINANCE

TITLE: AN EMERGENCY ORDINANCE PROVIDING FOR THE TRANSFER OF APPROPRIATIONS FOR A (SEVERAL) DEPARTMENT(S) OF THE CITY (TOWN) OF _____, INDIANA, FOR THE _____, AS REQUESTED BY THE DEPARTMENT HEAD(S) AND FORWARDED TO THE COMMON COUNCIL (TOWN COUNCIL) FOR THEIR ACTION AND PASSAGE PURSUANT TO IC 6-1.1-18-6.

WHEREAS, certain extraordinary conditions have developed since the adoption of the existing annual budget for the year _____ and it is now necessary to transfer appropriations into different categories than was appropriated in the annual budget for the various functions of the several departments to meet the emergencies.

SECTION 1. BE IT ORDAINED BY THE COMMON COUNCIL (TOWN COUNCIL) OF THE CITY (TOWN) OF _____, INDIANA, that for the expenses of the City (Town) Government, the following appropriations are hereby transferred and set apart out of the funds hereinafter named for the purposes specified, subject to the laws governing the same, such sums herein transferred unless otherwise stipulated by law.

SECTION 2. Where it has been shown that certain existing appropriations have unobligated balances which will be available for transferring as follows:

CITY (TOWN) GENERAL FUND:

MAYOR'S DEPARTMENT;

FROM: Services Personal, 100

TO: Other Services and Charges, 300

SUM: \$5,000.00

(Or where minor budget accounts are used)

FROM: Services Personal, Account No. 11.01, Salaries
and Wages, Department Head, Mayor

TO: Other Services and Charges, Account No. 31.01,
Professional Services, Legal

SUM: \$5,000.00

(NOTE: Continue with as many departments as required.)

SECTION 3. Passed and adopted by the Common Council (Town Council) on the _____ day of _____, _____ at the hour of _____ P.M. (A.M.).

Presiding Officer

ATTEST: _____

City (Town) Clerk-Treasurer

(NOTE: FOR CITIES ONLY)

Presented by me to the Mayor of the City of _____, Indiana, on the _____ day of _____, _____

City Clerk-Treasurer

This ordinance approved and signed by me on the _____ day of _____, _____.

Mayor, City of _____, Indiana

SECTION E - ACCOUNTING POLICIES

ACCOUNTS ESTABLISHED ON A GROSS BASIS

Salaries and wages shall be budgeted and accounted for on a gross basis, before deductions for withholding taxes, social security or similar items.

APPROPRIATIONS NECESSARY FOR ALL DISBURSEMENTS

The law and the uniform system provides that no disbursement shall be made except as authorized by an appropriation contained in the budget or in a subsequent modification of the budget. This, of course, does not apply to Utility, Special Assessment, Trust and Agency (Withholding) Funds.

CORRECTION OF ENTRIES

Receipts or disbursements entered in the wrong column or account shall be corrected by reduction with red ink (or minus sign) in the account column of the original entry and by posting in the normal manner to the proper column or account with appropriate explanation, provided the original entry and the correcting entry are made in the same calendar year and only one bank account is affected. If not in the same year or more than one bank account is affected, correction shall be made by issuing a warrant (check) and official receipt.

TREATMENT OF REFUNDS

Money received constituting refunds of appropriation expense, which correct or adjust any previous payments in the same budget year shall be recorded as a receipt in the fund from which the payment was made and be credited to the appropriation affected. If a refund covers payments made in a prior budget year, the appropriation account shall not be credited.

Refunds of moneys improperly or erroneously received by the city or town, such as an overpayment of a fee or license, may be repaid without appropriation.

INSURANCE RECOVERIES

Any insurance recovery for insurance damages may be appropriated by the common council or town council, without advertising and without approval of the State Board of Tax Commissioners, to repair or replace like property within twelve (12) months following the receipt thereof. [IC 6-1.1-18-7]